

## The Relevance of E. F. Schumacher in the 21<sup>st</sup> Century

By John Fullerton

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The inevitability of globalization and the dominance of increasingly large and powerful global corporations and financial institutions are accepted facts of contemporary economic life. Competitive forces pushing us further in this direction continue to build. The benefits of scale are real, furthered by accelerating technological advances. A former CEO of JPMorgan once proclaimed, “Size is not a strategy.” He was wrong. In 2001 that American banking dynasty came to a close with its takeover by Chase Manhattan Bank.

As industries mature, scale becomes more critical out of competitive necessity. The state capitalism of the emerging powers China and Russia raises the stakes further in our competitive global economy. Within this context Fritz Schumacher’s best-selling book, *Small Is Beautiful*, and his ideas about human scale, decentralization, and appropriate technologies might seem quaint and out of touch. We may believe that “small is beautiful” in our hearts, but our heads are teaching us that “big wins,” and experience has taught us to ignore our logical heads at our peril. Nevertheless, our conscience is telling us, now more than ever, that something is amiss. A new era is struggling to unfold. While the Obama phenomenon may in some ways reflect this change, it does not by any means define it. We need to pause and reflect carefully in light of what we see happening to the health and prosperity of individuals, whole populations, other species, oceans, the soil, rainforests, the atmosphere—indeed the entire planetary system—if we are awake enough to notice.

Something about our global economic system is broken. I say that not as an environmentalist or as a human-rights activist but as a former managing director and nearly twenty-year veteran of JPMorgan and subsequently a hedge-fund CEO. With the global credit crisis that emerged during the summer of 2007 and the ensuing financial and economic turmoil that some say is exceeded only by the Great Depression, the stability and even viability of our freewheeling, complex, and interconnected global financial system have come into question. Even the “experts” are scrambling for answers as they reinvent the purpose and practices of major institutions, including the Federal Reserve Bank itself.

The linkage between a global interconnected financial system and the real economy seems to loosen during boom times. Finance has become more abstract and ever more complex, with previously unimaginable wealth accruing to the relative few who control increasingly massive concentrations of capital. But when the music stops, the linkage with the real economy reasserts itself, spreading the pain far and wide to those who saw little of the benefits during the boom times. Nevertheless, the credit crisis, brought on and exacerbated by financial abstraction run amok, does not in itself constitute a broken economic system. Our free-market system is accustomed to correcting its own excesses, often with painful adjustments as part of the process.

Today we face two problems in our economic system. The first is a cyclical credit-driven contraction, which leaves the entire middle class vulnerable and the poor distressed and increasingly desperate. The second problem is more profound. So far, we are mostly focused on its symptoms, such as climate change, water shortages, the collapse of whole fisheries, rising raw-material prices led by oil, and now food scarcities as well. However, these are merely symptoms of the conflict between our growth-driven economic system and the finite limits of the biosphere that are coming into clear focus.

We are at risk of being distracted by the current cyclical stresses in the financial system, which overshadow the more critical *scale* challenges we face. Unfortunately, many of the remedies for the first problem will inevitably be in conflict with what is required for addressing the second. When stimulating growth is the solution to cyclical downturns and yet this growth of our resource-intensive global economy presses against the known physical limits of the biosphere, a contradiction arises that we cannot ignore.

*Our global economic system is broken but not because of the credit crisis; it is broken because it is predicated on perpetual, resource-driven growth with no recognition of scale limitations.*

In his book *Common Wealth: Economics for a Crowded Planet* (2008), renowned economist Jeffrey Sachs bluntly describes the world's failure to combine long-term economic growth and environmental health. "One thing is certain: *The current trajectory of human activity is not sustainable.*"<sup>1</sup> He observes that in the business-as-usual scenario, with human population projected to increase 40 percent by 2050 and average per capita income

increasing fourfold over that time frame, we can expect the current \$67 trillion global economy to expand approximately sixfold to over \$400 trillion by mid-century. When there is growing evidence that we have already overshoot the biosphere's carrying capacity, contemplating a sixfold increase is absurd. Yet this is exactly the path we are on. It is time to pause and reflect on the so-called inevitability of our growth-driven, increasingly "efficient" global economy. We must concentrate our attention on how to understand its implications and where to turn for the wisdom to guide the evolution of our economic models and our public policy choices.

In the wake of the current financial crisis it is clear in which direction the debate on how to "fix the system" is headed. After the taxpayer-supported rescue of Bear Stearns, calls for government intervention in the mortgage and housing markets and for alternatives to Milton Friedman's free-market gospel abound. Even Alan Greenspan, once considered perhaps the most respected central banker of the modern era, is being criticized as we look for someone to blame. We can expect the pendulum to shift back toward increased government regulation as the inevitable response to the recent crisis.

What we are not hearing, at least from the mainstream media, is a critical reframing of the questions that address root causes. The current policy debate accompanying the presidential election is void of any serious understanding of the inherently unsustainable economic model operating throughout the world.

We are not hearing a debate about the sustainability of a perpetually growing global economic system nested within our finite biosphere. We are not hearing a debate about the wisdom of allowing financial power (and systemic risk) to be increasingly concentrated in the hands of a few financial institutions of increasing complexity and scale. We are not publicly questioning the wisdom of the system we have allowed to evolve in response to capital's quest for ever greater financial returns. Nor are we debating where to look for creative responses. Instead, there are proposals to tweak the model while we continue business as usual. As is often the case, the "powers that be" have too much invested in the system to ask these fundamental questions, but nothing could be more important at this critical time.

What we must grasp is that the financial crisis we are reacting to is but a cyclical side show to the bigger issues we face regarding the sustainability of our economic system. We should see the present crisis as a wake-up call to this far greater challenge. We should search with an open mind for the wisdom we need to transition our economic system to a sustainable path, grounded in ecological reality, with a respect for human justice and a deep appreciation for all life. As Sachs and many before him have told us, the current path *is* unsustainable. What is needed is nothing less than a new economic myth that incorporates the central issue of scale in order to supplant and transcend the “invisible hand” of the free market. We need a “postmodern” (postmaterialist) economic theory.

At the beginning of the 20<sup>th</sup> century, scale did not matter. At the beginning of the 21<sup>st</sup> century, scale redefines our economic challenge.

In my personal quest for this new economic myth I was stopped dead in my tracks when I discovered E. F. Schumacher several years ago. Those who know Schumacher have probably read his seminal work, *Small Is Beautiful: Economics as if People Mattered* (1973). The fortunate ones have also read his final published work, *A Guide for the Perplexed*, a title that intrigued me and did not disappoint. Most disciples of Schumacher are likely to have encountered his clear thinking during the 1970s. Many went on to become leaders in the environmental movement.

I was in junior high school when *Small Is Beautiful* was published and then was busy building a career in global finance during the 80s and 90s in the belief that finance rather than politics would dominate international relations during my lifetime. I got that right but not in the way I expected. Seeing global finance as a root cause in fueling our unsustainable economic system is personally troubling and has shaken many of my core economic beliefs. This awareness has focused my mind on the proper role of finance within a healthy economy.

I didn't discover Schumacher until my middle years, when I was (and still remain) in search of answers to essential questions on how to reconcile the economic system I know well with the philosophical and spiritual truths I hold dear. How, for example, to reconcile the “golden rule” with the “invisible hand”? How can an economic system built on the celebration of individual greed and envy possibly lead to long-term societal prosperity? Why do we teach our children selflessness while our economy's core

architecture is dominated by self-interest? While these questions have been debated in academic and philosophical circles for many years, real-world experience did not seem to hold us accountable much of the time. Until now.

Now we are beginning to understand that a perpetually growing, resource-dependent, waste-generating economic system cannot operate indefinitely within the limits of a finite planet. We were warned earlier, when it would have been easier to address these issues, by the Club of Rome study called “Limits to Growth.”<sup>2</sup> We chose to ignore and even ridicule the report as being “neo-Malthusian.” Our economic system is indeed on a collision course with the biosphere, as many experts tell us. Thomas Friedman’s analysis in *The World Is Flat* of technology driving globalization is only part of the story. The world may be flat but, far more critical in terms of its implications, *the world is full*, and *that* changes everything.

Suddenly the prophecy in our wisdom traditions, such as the great religious texts and the great philosophers from Plato to Emerson, is becoming clear, for reasons we previously did not appreciate. Our systematic pursuit of self-interest in the name of “freedom” turns out to be harming even the so-called successful among us and even more so those without the power to be heard, both alive and not yet born. This truth was always there; it’s just that we could pretend to deny it in the belief that a rising tide would lift all boats. In order to find the next growth frontier to exploit we could simply “go west,” but now we have run out of more “wests.” Shockingly, some of our leading scientists, including Stephen Hawking, are discussing moving the human experiment to other planets, out of what they regard as necessity, for the long-term survival of the species.

In *Small Is Beautiful* Schumacher quotes Keynes, who, during the economic hardship of the 1930s, regarded personal enrichment as the driving force that would pull society out of the Great Depression. The time is not yet, said Keynes, for a “return to some of the most sure and certain principles of religion and traditional virtue—that avarice is a vice, that the exaction of usury is a misdemeanor, and the love of money is detestable.”<sup>3</sup> Schumacher continues reminding us of Keynes’s remarkable prescience, even in the depths of the Great Depression: “Economic progress, [Keynes] counseled, is obtainable only if we employ those powerful human drives of selfishness, which religion and traditional wisdom universally call upon us to resist. The modern economy is propelled by a frenzy of greed and indulges in an orgy

of envy, and these are not the accidental features but the very causes of its expansionist success. The question is whether such causes can be effective for long or whether they carry within themselves the seeds of destruction.”

Perhaps intuitively, based on philosophical conviction and with no direct reference to ecological limits, Keynes appeared to understand that our expansionist economic model, built on a foundation of self-interest, was doomed in the long run. Keynes believed that society would shift its priorities (as he himself had done) to nonmaterial pursuits once a certain level of material well-being was secured. Unfortunately, history has shown that this belief in humanity’s evolution may have been misplaced. Schumacher concludes, “If human vices such as greed and envy are systematically cultivated, the inevitable result is nothing less than a collapse of intelligence.”<sup>4</sup>

What may have made sense as a strategy to recover from the Great Depression has been generalized into the basis for our materialist, expansionist economic system. That system draws down life-sustaining yet finite natural capital at an accelerating rate and calls it development and growth. Personal fortunes derived from this broken system are celebrated in our culture. Yet we are seeing that such a system inevitably does indeed sow the seeds of its own destruction, as has become only too apparent at the beginning of the 21<sup>st</sup> century. Cultivating ever-increasing needs among a rising global population, mathematically it must face the limits of the finite natural resources and waste sinks of our planet as a product of its very “success.”

New and appropriate technologies and massive shifts to improve resource efficiency and reduce waste no doubt will help and buy time. But we cannot underestimate the profound inconsistency of a resource-intensive material economy built on perpetual growth and operating within the physical limits of a finite planet. Such an inherently unsustainable system is not built upon wisdom. It is built upon a foundation of sand that intentionally rejects the very principles of traditional virtue, as Keynes explicitly pointed out.

Unlike during Keynes’s time, when the human population was small and relatively poor (therefore placing few resource demands on the environment) and the earth’s resources appeared limitless, it is now time to transcend to an economics built upon wisdom. Schumacher’s instruction is clear and compelling: “From an economic view point, the central concept of wisdom

is permanence. We must study the economics of permanence.”<sup>5</sup> This intention takes us in a profoundly different direction from conventional, Cartesian thinking. “Permanence” suggests valuing durability over efficiency, stability over speed. These are different values from those typically celebrated in the marketplace.

The marketplace embraces risk and understands failure, but certain risks and failures are simply not acceptable and must be managed differently. It is “inefficient” to buy home insurance, but we do it when the risk of loss is too great and permanence is threatened. We need to think about what adjustments are necessary to “insure” the permanence of our collective home, which must include a stable civil society. Such thinking must address the very nature of our economic system. Without a sustainable and just economic system there is no permanence. We need to inject these ideas into the public debate by reframing the cyclical economic concerns that preoccupy the mainstream media. We see little true recognition of this profound challenge among our business, financial, and governmental leadership, which remains absorbed with short-term tactical issues.

We do observe excitement about new “green” initiatives, usually technology-based solutions to the problems we perceive. Technological breakthroughs are essential and inevitable, surprising even the optimists among us. Advances in technology and the great human entrepreneurial spirit are essential in tackling the sustainability challenges we face; however, while we hasten down this path, as we certainly must, we should also heed Einstein’s admonition, “We can’t solve problems by using the same kind of thinking we used when we created the problems.”

Relying on technological solutions alone to solve our sustainability challenges, which are largely the product of technological advances, is not wise. We must think differently, seeing the complexity of the sustainability challenge in a holistic fashion as we search for genuine lasting solutions. According to Schumacher, we need solutions consistent with an “economics of permanence,” which he tells us is derived from *prudence*.<sup>6</sup> My research reveals that prudence is the first among the cardinal virtues and is best understood as “truth.” Thomist scholar Josef Pieper, in *The Four Cardinal Virtues*, closes his chapter on prudence by saying, “The good is prudent beforehand; but that is prudent which is in keeping with reality.”<sup>7</sup> Schumacher is telling us that economics is prudent only if it is truthful, that is to say, only if it is “in keeping with reality.”

Following Schumacher's lead, we should look to the great wisdom traditions for direction in our search for this truth. Where better to look than to the ideas and teachings from all cultures that have stood the test of time rather than restrict ourselves to contemporary economic theories that we know are limited and incomplete.

Schumacher is relevant to our critical 21<sup>st</sup> century challenges precisely for this reason. His philosophy, his concern about the limits of materialistic scientism, his distinction between divergent and convergent problems, and his ideas of decentralism, appropriate technology, and human scale, to name but a few, are all rooted in great spiritual and philosophical teachings. Not surprisingly, in addition to being humane and just, his ideas are aligned with nature and nature's sustainable way, the only truly sustainable system we know. They are, I believe, rooted in truth as best Schumacher could discern it, and therefore they represent wisdom, the wisdom of permanence.

If you examine Schumacher's personal library, which is carefully stewarded by the E. F. Schumacher Society in the Berkshires, you will find that most of the texts are not about economics. Instead, they include the great philosophical and spiritual texts from all traditions. It was Schumacher's gift and genius to derive economic principles and ideas from these teachings, to have the courage to speak the truth, despite knowing it often flew in the face of conventional economic thinking, and to make the truth accessible with his clear and witty prose. What emerges is certainly not the final word on the economics of permanence. Some of his thinking is outdated or simply missed the mark, but as a foundation to build upon, it is invaluable. The reason his ideas about economics ring true is because they are built upon these wisdom traditions. The contradictions inherent in modern economics are gone.

Our challenge now is to refine and update this thinking and to chart a practical path of convergence between the reality that exists in our economic system today and the principles we strive to uphold, upon which our long-run prosperity undoubtedly depends. We will need to stimulate and utilize "appropriate" technological breakthroughs on this path but at the same time remain grounded in truth. Clarifying the first principles of this truth, to the extent that our collective wisdom—both past and present—allows, is our most urgent task. The opening decades of the 21<sup>st</sup> century may be our last chance to launch the critical transformation of our economic system to an

economics of permanence. We need to get it right, which only our collective consciousness will allow.

At the end of *The Kingdom of God Is Within You*, Leo Tolstoy underscores the importance of grounding our lives and, by extension, our society and institutions—including our economic system, which profoundly impacts all life on earth—on the bedrock foundation of truth: “The sole meaning of life is to serve humanity by contributing to the establishment of the kingdom of God, which can only be done by the recognition and profession of the truth by every man.”<sup>8</sup>

Transitioning to a sustainable and just economic system is the ultimate challenge of the 21<sup>st</sup> century. History no doubt will judge our generation by how well we acknowledge, embrace, and take up this challenge. Before rushing to act on the basis of our Cartesian predisposition toward logical problem solving, let us begin by recognizing and professing the truth. E. F. Schumacher and the Schumacher Library provide a beautiful place to start.

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#### Endnotes

<sup>1</sup> Jeffrey Sachs, *Common Wealth: Economics for a Crowded Planet* (New York: Penguin, 2008), p. 57.

<sup>2</sup> Donella Meadows, Dennis Meadows, Jorgen Randers, William Behrens III, *The Limits to Growth* (New York: Universe Books, 1972).

<sup>3</sup> E. F. Schumacher, *Small Is Beautiful* (New York: Harper Perennial, 1989), p. 31.

<sup>4</sup> *Ibid*, pp. 31-32.

<sup>5</sup> *Ibid*, p. 34.

<sup>6</sup> *Ibid*, pp. 316-317.

<sup>7</sup> Josef Pieper, *The Four Cardinal Virtues* (Notre Dame: Notre Dame Press, 1966), p. 9.

<sup>8</sup> Leo Tolstoy, *The Kingdom of God Is Within You* (New York: Bison Books, 1984), p. 368.

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*John Fullerton is a former Managing Director of JPMorgan, where he worked for 18 years in New York, London, and Tokyo, and subsequently was CEO of an energy focused hedge fund. He is now seeking to launch an investment fund for high impact sustainability initiatives and is working on “The Purpose of Capital,” a book about the role of investment capital in sustainable economics. He is a friend and supporter of the E. F. Schumacher Society in Great Barrington, Massachusetts. John can be reached at [john@level3cap.com](mailto:john@level3cap.com).*